

VZCZCXYZ0000
RR RUEHWEB

DE RUEHBH #1053/01 2361137
ZNY CCCCC ZZH
R 241137Z AUG 07
FM AMEMBASSY NASSAU
TO RUCPDO/DEPT OF COMMERCE WASHDC
RUEHC/SECSTATE WASHDC 4659
INFO RUCNCOM/EC CARICOM COLLECTIVE

C O N F I D E N T I A L NASSAU 001053

SIPDIS

SIPDIS

DEPT FOR WHA/CAR; DEPARTMENT OF COMMERCE/ITA BROOKS

E.O. 12958: DECL: 08/18/2017
TAGS: [PGOV](#) [EINV](#) [ENRG](#) [ECON](#) [BF](#)
SUBJECT: FINANCE MINISTER AFFIRMS BAHAMAS' INTEREST IN
SMALLER-SCALE INVESTMENTS

REF: A. NASSAU 0550

[1](#)B. NASSAU 0414

Classified By: Charge d'Affaires, a.i. D. Brent Hardt, Reasons 1.4 (b)
and (d)

SUMMARY

[1](#)1. (C) Minister of State for Finance Zhivargo Liang affirmed the new FNM government's interest in attracting more small-scale, boutique tourism investments as opposed to the large-scale investments popular during the Christie Administration. Liang emphasized that no investors would be turned away, and that discussions were ongoing on several large projects inherited from the PLP. In assessing the Bahamas' financial health, Liang noted that more stringent enforcement on import duties has compensated for modest tourism declines to keep government revenue steady. Liang stressed that the government was committed to consolidating the Bahamas' regulatory regime so investors would have "one stop shopping." Liang also noted that he expected to win the court challenge being mounted by the PLP to his seat in Parliament. Finally, while Liang noted that the FNM had originally approved the application for LNG plants in The Bahamas in 2001, the process had dragged on so long that it had now become overly politicized and would be a tough sell to the Bahamian public. End Summary.

[1](#)2. (C) Charge' called on Minister of State for Finance Zhivargo Liang as part of his continuing round of calls on new government ministers. While the Prime Minister formally holds the portfolio as Minister of Finance, Liang as Minister of State is in charge of day-to-day financial operations. Liang had previously been a Minister in Ingraham's former cabinet. He won his seat in Grand Bahama by less than 60 votes, and is being challenged in court by the PLP. Having won five of six seats in Grand Bahama, the FNM is determined to maintain its base on the island and restore Grand Bahamas' economic vitality.

TOURISM DEVELOPMENT: SMALL IS BEAUTIFUL

[1](#)3. (C) In the wake of FNM election rhetoric critical of a number of major tourism investment projects agreed by the former PLP government, the Charge' asked Liang about the status of the new government's assessment of these investment projects. Liang affirmed the FNM government's preference for projects with smaller environmental and labor footprints in the Family Islands. Nevertheless, Liang confirmed that the

large Ginn project in Grand Bahama and the Baha Mar project on New Providence would go forward. The Baha Mar project is still being negotiated and the Prime Minister is reportedly personally leading the negotiation. Ingraham has criticized concessions made by the Christie government in other major deals, so he will be under pressure to ensure a good deal for the government at the end of the day. Liang also noted that talks are moving forward with Harcourt, an Irish company that is purchasing the Royal Oasis Hotel in Freeport, which has been closed since the hurricanes of 2004 and 2005 and has severely damaged Grand Bahama's economy.

REVENUE AND TOURISM

¶4. (C) The Charge' and Minister then discussed recently declining tourism numbers in The Bahamas. The Minister noted that tourism is down throughout the region, laying the blame primarily on new U.S. passport requirements from the Western Hemisphere Travel Initiative. He felt that The Bahamas, which enjoyed a larger slice of "impulse tourism" by Americans, was particularly hard hit by the passport requirement. Despite the drop in tourism numbers -- visitors numbers between January and May are down 6 percent -- revenue has remained steady. Liag attributes this to better revenue collection of import duty revenue due the government but previously uncollected. He noted that taxes have not been increased in the last 15 years. Currently, he said, the government is considering whether to attempt to collect room taxes from people who rent out their second homes to others, but has not reached any decision on this potential source of revenue.

STREAMLINING REGULATION

¶5. (C) The discussion of revenue collection and tax enforcement provided the Charge' with a bridge to raise the issue of regulatory enforcement of the offshore financial sector. The Charge' noted that the strong performance of the Bahamian financial sector demonstrated that it is possible to have a strong sector that is well regulated. (Note: It was during the first Ingraham administration that the Bahamas was placed on the FATF list for having a weakly regulated offshore financial sector. Ingraham, in response, had implemented strong requirements that some in the financial sector believe damaged Bahamian competitiveness in relation to other offshore jurisdictions. End Note) Liang stated that the FNM government intended to streamline the regulatory regime in The Bahamas so that clients and law enforcement only had to deal with one regulator.

LNG DEBATE: PERCEPTION OVER REALITY

¶6. (C) Given Liang's responsibility for investment projects, the Charge' took the opportunity to raise the issue of the pending application by the U.S. energy company AES to operate an LNG plant at Ocean Cay. The Charge' reminded Liang that Florida would move ahead to meet its energy needs with or without this project, and that the LNG plant seemed like an excellent opportunity to augment Bahamian government revenues. Liang noted that when the FNM was last in office it had approved two LNG proposals, contingent on the environmental impact assessments. Unfortunately, he said, the PLP had allowed the proposals to linger so long that the environmentalists had now been able to embed concerns among the Bahamian public about the energy plants. The Charge' replied that much of the opposition to the project had been funded by a single individual for personal reasons, and that the environmental impact studies had been completed. He further pointed out to Liang that the U.S. had over 200 such plants in operation and that the plant could provide millions of dollars annually for the Bahamian treasury. Liang

believed the problem now lay in the perceptions, not the reality.

COMMENT

17. (C) Liang is one of the younger members of the cabinet and holds a vital position close to the Prime Minister. With a few books on economics to his credit, he is seen as the FNM's economic wunderkind. The new government's emphasis on smaller projects stems from their belief that some of the projects approved over the past two years are too large for the communities in which they are being built and that there is not enough Bahamian ownership and benefit from the projects. For the time being, the government has the luxury of dealing with projects inherited from the Christie Administration; moving forward it will have to find concrete ways to implement its preference for smaller, high-end investments, while continuing to generate the construction employment necessary to fuel the broader economy.
HARDT